

# Part 2 - Public Investment Planning: Investment Policy and Objectives

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## Session Three:

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# Why We're Here:

1. What is this policy for?
2. Who is this policy for?
3. Is my policy okay?
4. What do readers need to “get?”
5. Does performance live up to policy?
6. What if others insert their preferences?
7. How does my policy reflect on me?

# A “Good” Investment Policy Is The Sum of “Good” Parts

- Scope
- Prudence
- Objectives
- Delegation
- Ethics
- Brokers/Dealers
- Authorized investments
- Diversification
- Maximum Maturities
- Pools / Mutual Funds
- Performance
- Review
- Reporting
- Collateralization
- Safekeeping
- Controls
- Terminology
- Adoption

# A “Good” Investment Policy

## Scope

### 1. States exactly which funds it covers

- Defines where the money is
- Defines what could be included in future
- Specifically excludes funds, if applicable, such as employee retirement funds and debt issues managed by trustees

### 2. Must be unambiguous

1. Don't use “most,” “some,” etc.

# A “Good” Investment Policy

## Prudence

### 1. “Prudent Person” or “Prudent Investor Standard”

- Define what those mean
- Don’t make your reader Google or look up California Government Code 53600.3 / 53646

### 2. Spell out: at the time of purchase

### 3. Spell out: later expectations

# A “Good” Investment Policy **Objective**

**1. Safety**

**2. Liquidity**

**3. Yield**

- **These are not new**
- **Rationale is widely known,**
- **Language is widely available**
- **Assume first-time reader knows nothing**

# A “Good” Investment Policy

## Delegation of Authority

### 1. Start with voters/taxpayers/citizens

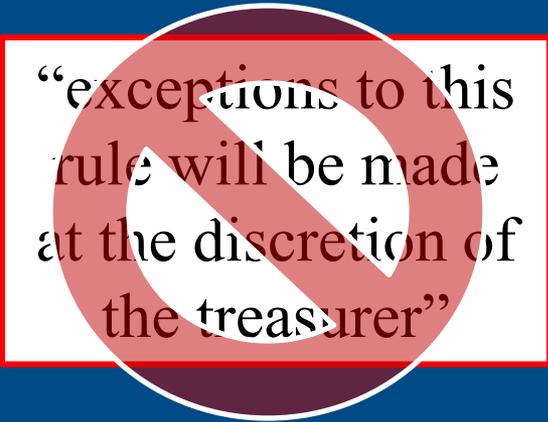
- Government code works

### 2. Governing Board

- Consent of the governed
- They ratify or re-write

### 3. Who can execute trades?

### 4. Allow for vacancies, absences



“exceptions to this rule will be made at the discretion of the treasurer”

# **A “Good” Investment Policy**

## **Ethics and Conflict of Interest**

**1. Don’t say “there are to be no conflicts of interest”**

- **Personal investments, local property**

**2. So when it’s unavoidable?**

- **Disclose – to whom**
- **Report publicly**
- **Within what time frame**

# **A “Good” Investment Policy**

## **Authorized Dealers, Institutions**

### **1. Due diligence is required**

- Credentials and qualifications**
- Very public selection process**
- Adherence to . . . your policy**

### **2. There is PLENTY of sample language**

### **3. Preference for local business?**

# A “Good” Investment Policy

## Authorized Investments

1. This one is the BIGGIE
2. Start with § 53601-53684
3. Be specific
  - What’s allowed, what’s prohibited
  - % of portfolio, % by issuer
  - \$ max, maturity limits
  - Might want to compare to Gov Code

# A “Good” Investment Policy

## Diversification

1. % of portfolio by category
2. % of portfolio per issuer
  - Combine all areas of portfolio an issuer might be – CP, MTN, etc.
3. % of issuer’s net worth
4. Sectors – tough to do in real life

# A “Good” Investment Policy

## Maximum Maturities

**1. Know your cashflow, know your portfolio segments**

- Liquidity portion - cashflow matching?
- Income portion – ladder?

**2. Overall risk aversion?**

# A “Good” Investment Policy

## No “Right” Format

6110.9.1 Within the context of these limitations, the following investments are authorized. If a type of security is not specifically authorized by this policy, it is not a permitted investment:

PERMITTED INVESTMENTS/ DEPOSITS	BCHD % of TOTAL LIMITS / MATURITY LIMITS	State 53600- % of TOTAL LIMITS / MATURITY LIMITS
Government Investment Pools <ul style="list-style-type: none"> <li>LAIF (Local Agency Investment Fund) California State Treasurer’s Office</li> <li>CALTrust (Investment Trust of California JPA)</li> </ul>	<ul style="list-style-type: none"> <li>Maximum permitted by State Treasurer, no maturity limit</li> <li>Maximum permitted by 53601, no maturity limit</li> </ul>	<ul style="list-style-type: none"> <li>No maturity limit, \$50 million max permitted by State Treasurer</li> <li>No maturity limit, no \$ max</li> </ul>
Securities of the U.S. Government including U.S. Government Agencies and Instrumentalities **	Unlimited % of total portfolio, 5 years	No % limit, 5 years
Registered State Warrants or Treasury Notes or Bonds of the State of California **	No % limit 5 years	No % limit, 5 Years
Bonds, notes, warrants, or other evidences of indebtedness of any local Agency within the State of California **	No % limit 5 years	No % limit, 5 Years
Bankers Acceptances *	20%, 5% per issuer, 180 days	40% max, 30% per issuer 180 days
Commercial Paper *	25%, 5% per issuer, 180 Days	25% max, 10% per issuer, 270 days
Negotiable Certificates of Deposit *	30%, 5% per issuer, 1 Year	30 %, 5 Year
Time Certificates of Deposit *	50%, 2 Years	No % limit, 5 years

# A “Good” Investment Policy

## No “Right” Format

- A. United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio which can be invested in this category.
- B. Obligations issued by agencies of the U.S. Government, such as the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank System (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). No more than 1/3 of the cost value of the total portfolio at time of purchase can be invested in the unsecured debt of any one agency.

Investments detailed in C through H below are additionally restricted as to percentage of the cost value of the portfolio in any one issuer name up to a maximum of 5%. The total cost value invested in any one issuer name will not exceed 5% of an issuer's net worth. An additional 5%, or a total of 10%, of the cost value of the portfolio in any one issuer name can be authorized upon written approval of the Treasurer.

Any bank, savings association, federal association or federally insured industrial loan company the City deposits money with is required to have an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California communities including low and moderate income neighborhoods.

- C. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity nor 40% of the cost value of the portfolio and the City may only purchase bills of exchange accepted

# A “Good” Investment Policy

## Investment Pools/Mutual Funds

1. Are they investing in what you permit yourself to invest in?
2. There’s more than just LAIF
  - JPAs, County Pools
3. If you do a questionnaire, do you have thresholds?
  - SEC registration, \$500M, fees, reserves?

# A “Good” Investment Policy

## Performance Standards

1. Name your benchmark
2. Report performance compared to benchmark
3. Governing body defines



~~“we will achieve a  
market rate of  
return”~~

# **A “Good” Investment Policy**

## **Review of Portfolio**

### **1. Staff reviews**

**1. Who?**

**2. How often?**

### **2. Looking for?**

**1. Fallen out of compliance**

**2. Potential (future) trouble**

### **3. And then what?**

# A “Good” Investment Policy Reporting

## 1. Staff reports

1. What?
2. In how much detail?
3. To whom?
4. How often?

# A “Good” Investment Policy

## **Collateralization**

- 1. CDs and Repurchase Agreements**
- 2. State a number (105%, 110%)**
- 3. Anticipate market changes, not just full value**

# A “Good” Investment Policy

## Safekeeping

1. What if your broker sent you a report that said your portfolio was there and it wasn't?
2. 3<sup>rd</sup> party = independence
3. Delivery-versus-payment (DVP)
  - When's the last time you saw a paper stock share or bond certificate?

# **A “Good” Investment Policy**

## **Internal Controls**

- 1. Everyone is subject to audit**
- 2. Does policy say you have to show the results? To whom? When?**

# A “Good” Investment Policy

## Terminology

1. Don't “use military terms on civilians”
2. Use this opportunity to educate
3. Should be able to look up any term in policy and find its definition

# A “Good” Investment Policy

## **Policy Adoption**

- 1. Annual review**
- 2. Changes approved**
- 3. Adopted in public meeting**

# A “Good” Investment Policy

## Good Examples

### 1. Sample documents on CMTA.org

**CMTA-Certified Policies**

The Certified Municipal Treasurers Association (CMTA) developed the Investment Policy Certification Program in conjunction with the California Debt and Investment Advisory Commission (CDIAC) to provide guidance and improve oversight of public sector agency investment portfolios.

The benefits of Certification are:

- Improved trust and confidence from independent external review
- Compliance to California Government Code sections
- Complements independent external audits
- Reviewed by Certified California Municipal Treasurers
- Demonstrated diligence and transparency to the public you serve

CMTA's library of Certified Policies is intended to provide samples for use as both a template and a guideline using what is already in place at other local governments. Samples provided are intended to be blocks of text that can be used as-is or adjusted as needed to provide a more efficient and effective process for other agencies.

Agencies are encouraged to submit their Investment Policy for review, certification and inclusion in this resource page.

**ADDITION TO THE LIBRARY**  
Documents arising from  
interview requests should be  
forwarded to [justin@cmta.org](mailto:justin@cmta.org)  
for posting to contribute on  
various topics.

**Investment Policies**

**CERTIFIED INVESTMENT POLICIES**

1. City of Moreno Valley
2. City of Aliso Viejo
3. Orange County Sanitation District
4. Beach Cities Health District
5. City of San Diego
6. City of Burbank
7. City of Menlo Park
8. City of Irvine
9. Cucamonga Valley Water District
10. City of South Lake Tahoe

**GET YOUR INVESTMENT POLICY CERTIFIED**

**Related Items**

- Sample RFFs
- Sample Policies
- Sample Broker-Dealer Questionnaires
- Sample Resolutions

**City of San Diego**

**Beach Cities Health District**

# **A Few Thoughts Pertaining to The Real World**

- 1. What's the risk tolerance of the agency?**
- 2. Is it really defined in the policy?**
- 3. Getting input and buy-in from governing body?**

# **What's Our Risk Tolerance?**

**Risk Tolerance assessed:**

- 1. What's our cashflow?**
- 2. What is the capability of staff?**
- 3. What do The People think?**

**Risk Tolerance defined:**

- 1. What's our benchmark, really?**

## **Example: Sept. 14, 2008**

- 1. Lehman Brothers medium term notes / commercial paper**
- 2. Quick: check the policy!**
- 3. What's our ability to analyze credit?**
- 4. What % of corporates do we really want to get benchmark yield**

## Getting Buy-In

1. Your real audience is whoever reviews and approves
2. Proposed edits are an opportunity to educate
3. Use every cover memo to educate a little
4. Pose questions yourself that should be answered , then answer them

# Summary

**Investment policy is to:**

- 1. Educate and inform governing body and public**
- 2. Guide execution**
- 3. Predict performance**
- 4. Reflect the peoples' preferences**
- 5. Policy reflects your ability to manage all of the above**

# Questions & Answers

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